

EUREKA CITY

FINANCIAL STATEMENTS

JUNE 30, 2005

EUREKA CITY
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
Eureka City
Eureka, UT

January 10, 2006


We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Eureka City, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Eureka City's Management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred above present fairly, in all material respects, the respective financial position, of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Eureka City, as of June 30, 2005, and the respective changes in financial position and cash flows where applicable for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 10, 2006 on our consideration of Eureka City's internal control structure over financial reporting and on our test of its compliance with laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


GILBERT & STEWART
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Eureka City, we offer readers of Eureka City's financial statements this narrative overview and analysis of the financial activities of Eureka City for the fiscal year ended June 30, 2005.

Financial Highlights

- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$102,145. Of this amount \$3,972 is reserved and must only be spent on projects for which the money is reserved. The remaining \$98,173 is unreserved in the General Fund.
- The total net assets of \$1,078,373 are made up of \$965,017 in capital assets net of related debt and \$113,356 in other net assets.
- In the Enterprise (Proprietary) Funds operating revenues decreased by \$22,919. Corresponding operating expenses increased by \$49,490.

Reporting the City as a Whole

This discussion and analysis is intended to serve as an introduction to Eureka City's basic financial statements. Eureka City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Eureka City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Eureka City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Eureka City is improving or deteriorating. However, you will also need to consider other non-financial factors.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Eureka City that are principally supported by taxes and intergovernmental revenues (governmental activities) and from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 8 & 9 of this report.

Reporting the City's Most Significant Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Eureka City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- **Governmental funds** – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The governmental fund financial statements can be found on pages 10-13 of this report.

The major governmental funds (as determined by generally accepted accounting principles) is the General Fund.

- **Proprietary funds** – Eureka City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Eureka City uses enterprise funds to account for its Water Utility, Sewer Utility, and Sanitation Utility.
- The basic proprietary fund financial statements can be found on pages 14-16 of this report.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Eureka City, assets exceed liabilities by \$1,079,904.

One of the largest portions of Eureka City's net assets (90%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the City's net assets. Comparative figures for Fiscal Years 2004 and 2005 are shown:

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| Assets | | | | | | |
| Current and other assets | \$ 176,473 | \$ 166,948 | \$ 444,805 | \$ 338,239 | \$ 621,278 | \$ 505,187 |
| Capital Assets | 966,587 | 965,017 | 1,832,819 | 1,774,218 | 2,799,406 | 2,739,235 |
| Total Assets | 1,143,060 | 1,131,965 | 2,277,624 | 2,112,457 | 3,420,684 | 3,244,422 |
| Liabilities | | | | | | |
| Long-term debt outstanding | | | 841,588 | 791,716 | 841,588 | 791,716 |
| Other liabilities | 63,156 | 53,592 | 64,930 | 74,974 | 128,086 | 128,566 |
| Total Liabilities | 63,156 | 53,592 | 906,518 | 866,690 | 969,674 | 920,282 |
| Net Assets | | | | | | |
| Invested in capital assets | | | | | | |
| net of related debt | 966,587 | 965,017 | 935,877 | 927,148 | 1,902,464 | 1,892,165 |
| Restricted | 30,240 | 3,972 | | | 30,240 | 3,972 |
| Unrestricted | 83,077 | 109,384 | 435,229 | 318,619 | 518,306 | 428,003 |
| Total net assets | \$ 1,079,904 | \$ 1,078,373 | \$ 1,371,106 | \$ 1,245,767 | \$ 2,451,010 | \$ 2,324,140 |

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 15,226 | \$ 23,562 | \$ 208,510 | \$ 185,591 | \$ 223,736 | \$ 209,153 |
| Operating Grants and Contrib. | | | | | | |
| Capital Grants and Contrib. | 64,604 | 70,676 | | | 64,604 | 70,676 |
| General Revenues: | | | | | | |
| Property Taxes | 46,084 | 54,652 | | | 46,084 | 54,652 |
| Sales and Use Tax | 56,770 | 62,034 | | | 56,770 | 62,034 |
| Franchise Tax | 11,284 | 11,411 | | | 11,284 | 11,411 |
| Other Taxes | 878 | 987 | | | 878 | 987 |
| Unrestricted Investment Earn. | 8,465 | 2,141 | 3,350 | 2,486 | 11,815 | 4,627 |
| Total Revenues | 203,311 | 225,463 | 211,860 | 188,077 | 415,171 | 413,540 |
| Expenses: | | | | | | |
| General Government | 88,844 | 95,136 | | | 88,844 | 95,136 |
| Public Safety | 13,086 | 11,008 | | | 13,086 | 11,008 |
| Public Works | 79,912 | 105,063 | | | 79,912 | 105,063 |
| Community Development | 16,913 | 15,132 | | | 16,913 | 15,132 |
| Planning | 1,302 | 655 | | | 1,302 | 655 |
| Water Utility | | | 119,367 | 156,863 | 119,367 | 156,863 |
| Sewer Utility | | | 94,908 | 102,849 | 94,908 | 102,849 |
| Sanitation Utility | | | 49,725 | 53,703 | 49,725 | 53,703 |
| Total Expenses | 200,057 | 226,994 | 264,000 | 313,415 | 464,057 | 540,409 |
| Increase (Decrease) in Net Assets | 3,254 | (1,531) | (52,140) | (125,338) | (48,886) | (126,869) |
| Net Assets - Beginning | 1,076,650 | 1,079,904 | 1,423,246 | 1,371,105 | 2,499,896 | 2,451,009 |
| Net Assets - Ending | \$ 1,079,904 | \$ 1,078,373 | \$ 1,371,106 | \$ 1,245,767 | \$ 2,451,010 | \$ 2,324,140 |

Business-type activities. Business-type activities decreased the City's net assets by \$(125,338). As of the end of the current fiscal year, two of the three business-type funds reported positive net assets.

Financial Analysis of the Government's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$98,173, while total fund balance reached \$102,145. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 44% of total general fund expenditures, while total fund balance represents 45% of that same amount.

The City maintains enterprise funds to account for the business-type activities of the City. The information is found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the combined Enterprise funds at the end of the year amounted to \$318,619. The value of capital assets net of related debt in these same funds is \$927,148. As mentioned in the financial highlights, operational revenues and expenditures in the Enterprise funds increased during the current fiscal year.

General Fund Budgetary Highlights

During the fiscal year, the General Fund's original budget was adopted by the City council with budgeted revenues of \$226,960 and budgeted expenditures of \$220,734. During the year the City amended their budget decreasing revenues by \$21,760, and expenses by \$15,159.

Capital Assets and Debt Administration

Capital Assets. Eureka City's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$2,739,235 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress.

Eureka City's Capital Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------|-------------------------|-------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| Land | \$ 118,000 | \$ 118,000 | \$ 5,000 | \$ 5,000 | \$ 123,000 | \$ 123,000 |
| Water Rights | | | 36,997 | 36,997 | 36,997 | 36,997 |
| Buildings | 165,509 | 159,345 | | | 165,509 | 159,345 |
| Improvements | 4,699 | 4,365 | | | 4,699 | 4,365 |
| Equipment | 15,368 | 23,957 | 1,790,822 | 1,732,221 | 1,806,190 | 1,756,178 |
| Infrastructure | 663,011 | 659,350 | | | 663,011 | 659,350 |
| Total Capital Assets | <u>\$ 966,587</u> | <u>\$ 965,017</u> | <u>\$ 1,832,819</u> | <u>\$ 1,774,218</u> | <u>\$ 2,799,406</u> | <u>\$ 2,739,235</u> |

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt. At the end of the current year, the City had total bonded debt outstanding of \$841,588, secured solely by specific revenue (enterprise) sources (i.e., revenue bonds).

Eureka City's Outstanding Debt Revenue Bonds

| | Business-type Activities | |
|--------------------------|--------------------------|-------------------|
| | 2004 | 2005 |
| Business-type Activities | | |
| Water Bond Payable 2003A | \$ 339,000 | \$ 325,000 |
| Water Bond Payable 2003B | 352,000 | 335,000 |
| Water Loan Payable | 22,000 | 18,000 |
| Sewer Loan Payable | 178,460 | 163,588 |
| Total Outstanding Debt | <u>\$ 891,460</u> | <u>\$ 841,588</u> |

The City's total outstanding debt decreased by \$49,872 during Fiscal Year 2005. This was a result of the required debt service payments.

State statutes limit the amount of general obligation debt a governmental entity may issue to 4% of its total taxable value. The current limitations for the City are \$497,644, which is significantly in excess of the City's outstanding general obligation debt. In addition, state statutes allow for an additional 8% to be used for water, sewer, or other revenue bond projects thus resulting in a debt limit of 12% of total taxable value. Total limitation is \$1,589,918, which again significantly exceeds the outstanding debt.

Additional information on the City's long-term debt can be found in the footnotes to this financial report.

Economic Factors and Next Year's Budgets and Rates

- The General Fund budget for the fiscal year-ending June 30, 2006 reflects an increase of 6% over the final fiscal year ending June 30, 2005.

Request For Information

This financial report is designed to provide a general overview of Eureka City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Eureka City, P.O. Box 156 Eureka City, UT 84628.

BASIC FINANCIAL STATEMENTS

EUREKA CITY
Statement of Net Assets
June 30, 2005

| | Primary Government | | |
|---|------------------------------------|-------------------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 95,817 | \$ 315,426 | \$ 411,243 |
| Receivables: | | | |
| Accounts (Net of allowance) | | 22,813 | 22,813 |
| Taxes | 63,546 | | 63,546 |
| Intergovernmental | 7,585 | | 7,585 |
| Capital assets (net of accumulated depreciation): | | | |
| Land | 118,000 | 5,000 | 123,000 |
| Water Rights | | 36,997 | 36,997 |
| Buildings | 159,345 | | 159,345 |
| Improvements | 4,365 | | 4,365 |
| Equipment and Systems | 23,957 | 1,732,221 | 1,756,178 |
| Infrastructure | 659,350 | | 659,350 |
| Total assets | <u>1,131,965</u> | <u>2,112,457</u> | <u>3,244,422</u> |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | 15,182 | 19,720 | 34,902 |
| Deposits | 4,583 | | 4,583 |
| Deferred revenue | 33,827 | | 33,827 |
| Bond interest payable | | 5,382 | 5,382 |
| Long Term Liabilities | | | |
| Due Within One Year | | 49,872 | 49,872 |
| Due in More Than One Year | | 791,716 | 791,716 |
| Total liabilities | <u>53,592</u> | <u>866,690</u> | <u>920,282</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 965,017 | 927,148 | 1,892,165 |
| Restricted | | | |
| C Roads | 3,972 | | 3,972 |
| Unrestricted | 109,384 | 318,619 | 428,003 |
| Total net assets | <u>\$ 1,078,373</u> | <u>\$ 1,245,767</u> | <u>\$ 2,324,140</u> |

See accompanying notes to the financial statements.

EUREKA CITY
Statement of Activities
For the Year Ended June 30, 2005

| Function/Programs | Program Revenues | | | | Net (Expense) Rev & Chgs in Net Assets | | |
|----------------------------------|------------------|----------------------|------------------------------------|----------------------------------|--|---|--------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Primary Government Business-type Activities | Total |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 95,136 | \$ 16,322 | \$ - | \$ - | \$ (78,814) | \$ - | \$ (78,814) |
| Public safety | 11,008 | | | | (11,008) | | (11,008) |
| Public Works | 105,063 | | | 70,676 | (34,387) | | (34,387) |
| Community Development | 15,132 | 7,240 | | | (7,892) | | (7,892) |
| Planning | 655 | | | | (655) | | (655) |
| Total governmental activities | 226,994 | 23,562 | - | 70,676 | (132,756) | - | (132,756) |
| Business-type activities: | | | | | | | |
| Water | 156,863 | | 105,165 | | | (51,698) | (51,698) |
| Sewer | 102,849 | | 33,825 | | | (69,024) | (69,024) |
| Garbage | 53,703 | | 46,601 | | | (7,102) | (7,102) |
| Total business-type activities | 313,415 | | 185,591 | 0 | 0 | (127,824) | (127,824) |
| Total primary government | \$ 540,409 | \$ 209,153 | \$ - | \$ 70,676 | \$ (132,756) | \$ (127,824) | \$ (260,580) |
| General revenues: | | | | | | | |
| Property taxes | | | | | \$ 54,652 | | \$ 54,652 |
| General sales and use tax | | | | | 62,034 | | 62,034 |
| Franchise tax | | | | | 11,411 | | 11,411 |
| Other Taxes | | | | | 987 | | 987 |
| Unrestricted investment earnings | | | | | 2,141 | 2,486 | 4,627 |
| Total general revenues | | | | | 131,225 | 2,486 | 133,711 |
| Change in net assets | | | | | (1,531) | (125,338) | (126,869) |
| Net assets - beginning | | | | | 1,079,904 | 1,371,105 | 2,451,009 |
| Net assets - ending | | | | | \$ 1,078,373 | \$ 1,245,767 | \$ 2,324,140 |

See accompanying notes to the financial statements.

EUREKA CITY
Balance Sheet
Governmental Funds
June 30, 2005

| | General Fund |
|--|-------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 95,817 |
| Taxes Receivable | 63,546 |
| Intergovernmental Receivable | 7,585 |
| Total assets | \$ 166,948 |
| LIABILITIES AND FUND BALANCES | |
| Liabilities: | |
| Accounts payable & accrued liabilities | \$ 15,182 |
| Deposits | 4,583 |
| Deferred revenue | 45,038 |
| Total liabilities | 64,803 |
| Fund Balances: | |
| Fund balances reserved for: | |
| Roads | 3,972 |
| Unreserved | 98,173 |
| Total fund balances | 102,145 |
| Total liabilities & fund balances | \$ 166,948 |

See accompanying notes to the financial statements.

EUREKA CITY
Balance Sheet Reconciliation to
Statement of Net Assets
June 30, 2005

| | |
|---|---------------------|
| Total fund balances - governmental fund types: | \$ 102,145 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 965,017 |
| Long-term assets not available to pay for current period expenditures and, therefore, are deferred in the funds | 11,211 |
| Net assets of government activities | <u>\$ 1,078,373</u> |

See accompanying notes to the financial statements.

EUREKA CITY
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

| | <u>General Fund</u> |
|--|--------------------------|
| REVENUES | |
| Taxes | \$ 119,863 |
| Licenses and permits | 5,107 |
| Intergovernmental | 71,663 |
| Charges for services | 10,638 |
| Fines | 5,942 |
| Misc | 4,016 |
| Total revenues | <u>217,229</u> |
| EXPENDITURES | |
| Current: | |
| General government | 90,972 |
| Public safety | 10,258 |
| Public works | 108,741 |
| Planning and Zoning | 655 |
| Community Development | 14,798 |
| Total expenditures | <u>225,424</u> |
| Excess revenues over (under) expenditures | (8,195) |
| Other financing sources (uses) | 0 |
| Fund balances - beginning of year | 110,340 |
| Fund balances - end of year | <u><u>\$ 102,145</u></u> |

See accompanying notes to the financial statements.

EUREKA CITY
Statement of Changes Reconciliation to
Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|---|--------------------------|
| Net changes in fund balances - total governmental funds | \$ (8,195) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statements | 8,234 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | <u>(1,570)</u> |
| Change in net assets of governmental activities | <u><u>\$ (1,531)</u></u> |

See accompanying notes to the financial statements.

EUREKA CITY
Statement of Net Assets
Proprietary Funds
June 30, 2005

| | Business-Type Activities - Enterprise | | | |
|---|---------------------------------------|-------------------|--------------------|---------------------|
| | Water | Sewer | Garbage | Total |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 194,626 | \$ 120,800 | \$ | \$ 315,426 |
| Receivables | | | | |
| Accounts (Net) | 12,146 | 4,870 | 5,797 | 22,813 |
| Due from other funds | 24,785 | | | 24,785 |
| Total current assets | <u>231,557</u> | <u>125,670</u> | <u>5,797</u> | <u>363,024</u> |
| Noncurrent assets: | | | | |
| Capital Assets | 1,396,064 | 1,198,537 | | 2,594,601 |
| Less: Accumulated depreciation | <u>(365,948)</u> | <u>(454,435)</u> | | <u>(820,383)</u> |
| Total noncurrent assets | <u>1,030,116</u> | <u>744,102</u> | <u>-</u> | <u>1,774,218</u> |
| Total assets | <u>1,261,673</u> | <u>869,772</u> | <u>5,797</u> | <u>2,137,242</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | 4,662 | 11,414 | 3,644 | 19,720 |
| Bond Interest Payable | 5,382 | | | 5,382 |
| Due to Other Funds | | | 24,785 | 24,785 |
| Current Portion of Long-term debt | <u>35,000</u> | <u>14,872</u> | <u></u> | <u>49,872</u> |
| Total current liabilities | <u>45,044</u> | <u>26,286</u> | <u>28,429</u> | <u>99,759</u> |
| Noncurrent liabilities: | | | | |
| Notes Payable | <u>643,000</u> | <u>148,716</u> | <u></u> | <u>791,716</u> |
| Total noncurrent liabilities | <u>643,000</u> | <u>148,716</u> | <u>-</u> | <u>791,716</u> |
| Total liabilities | <u>688,044</u> | <u>175,002</u> | <u>28,429</u> | <u>891,475</u> |
| Net Assets: | | | | |
| Invested in capital assets, net of related debt | 346,634 | 590,693 | - | 937,327 |
| Unrestricted | <u>226,995</u> | <u>104,077</u> | <u>(22,632)</u> | <u>308,440</u> |
| Total net assets | <u>\$ 573,629</u> | <u>\$ 694,770</u> | <u>\$ (22,632)</u> | <u>\$ 1,245,767</u> |

See accompanying notes to the financial statements.

EUREKA CITY
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|-------------------|--------------------|---------------------|
| | Water | Sewer | Garbage | Total |
| Operating revenues: | | | | |
| Charges for Services | \$ - | \$ 33,825 | \$ 46,601 | \$ 80,426 |
| Charges for Services Pledged as Security on Revenue Bonds | 105,165 | | | 105,165 |
| Total operating revenues | 105,165 | 33,825 | 46,601 | 185,591 |
| Operating expenses: | | | | |
| Salaries and wages | 29,885 | 29,044 | 4,843 | 63,772 |
| Purchased Services | 50,275 | 19,797 | 48,860 | 118,932 |
| Supplies and Materials | 32,333 | 28,643 | | 60,976 |
| Depreciation and Amortization | 33,550 | 25,051 | | 58,601 |
| Miscellaneous | | | | |
| Total operating expenses | 146,043 | 102,535 | 53,703 | 302,281 |
| Operating income | (40,878) | (68,710) | (7,102) | (116,690) |
| Nonoperating revenues (expenses): | | | | |
| Interest revenue | 351 | 2,135 | | 2,486 |
| Interest expense and fiscal charges | (10,820) | | | (10,820) |
| Sewer grant repayment | | (314) | | (314) |
| Total nonoperating revenues (expenses) | (10,469) | 1,821 | 0 | (8,648) |
| Net Income (loss) | (51,347) | (66,889) | (7,102) | (125,338) |
| Change in net assets | (51,347) | (66,889) | (7,102) | (125,338) |
| Total net assets - beginning | 624,976 | 761,659 | (15,530) | 1,371,105 |
| Total net assets - ending | <u>\$ 573,629</u> | <u>\$ 694,770</u> | <u>\$ (22,632)</u> | <u>\$ 1,245,767</u> |

See accompanying notes to the financial statements.

EUREKA CITY
Statement of Cash Flows
Proprietary funds
For the Year Ended June 30, 2005

| | Business-Type Activities - Enterprise Funds | | | |
|--|---|-------------|------------|--------------|
| | Water | Sewer | Garbage | Total BTAs |
| Cash Flows From Operating Activities | | | | |
| Receipts from customers | \$ 105,083 | \$ 32,006 | \$ 45,196 | \$ 182,285 |
| Payments to suppliers | (58,963) | (28,885) | (40,358) | (128,206) |
| Payments to employees | (29,836) | (40,493) | (4,838) | (75,167) |
| Net cash provided (used) by operating activities | 16,284 | (37,372) | - | (21,088) |
| Cash Flows From Noncapital Financing Activities | - | - | - | - |
| Cash Flows From Capital and Related Financing Activities | | | | |
| Purchases of capital assets | | | | 0 |
| Principal paid on capital debt | (35,000) | (14,872) | | (49,872) |
| Grant proceed repayment | | (314) | | (314) |
| Interest paid on capital debt | (10,920) | | | (10,920) |
| Net cash provided (used) by capital and related financing activities | (45,920) | (15,186) | - | (61,106) |
| Cash Flows From Investing Activities | | | | |
| Interest and dividends received | 351 | 2,135 | | 2,486 |
| Net increase (decrease) in cash and cash equivalents | (29,285) | (50,423) | - | (79,708) |
| Cash and cash equivalents - beginning | 223,911 | 171,223 | - | 395,134 |
| Cash and cash equivalents - ending | \$ 194,626 | \$ 120,800 | \$ - | \$ 315,426 |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | | |
| Operating income | \$ (40,878) | \$ (68,710) | \$ (7,102) | \$ (116,690) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | |
| Depreciation expense | 33,550 | 25,051 | | 58,601 |
| (Increase) decrease in accounts rec. | 30,082 | (1,819) | (1,405) | 26,858 |
| (Increase) decrease in due from other funds | (4,990) | | | (4,990) |
| Increase (decrease) in accounts payable | (1,480) | 8,106 | 3,517 | 10,143 |
| Increase (decrease) in Due to other funds | | | 4,990 | 4,990 |
| Total adjustments | 57,162 | 31,338 | 7,102 | 95,602 |
| Net cash provided (used) by operating activities | \$ 16,284 | \$ (37,372) | \$ - | \$ (21,088) |

See accompanying notes to the financial statements.

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Eureka City's (the City's) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict the GASB pronouncements. The City applies FASB pronouncements issued after that date to its business-type activities and enterprise funds. The more significant accounting policies established by GAAP and used by the City are discussed below.

Reporting Entity

City of Eureka is located in Juab County in the State of Utah. Under the present form of government, administrative and legislative powers are vested in a governing body, consisting of the Mayor and a City Council. The City provides the following services as mandated by law: General Administrative Services, Public Safety, Highways and Public Improvements, Parks, Recreation and Public Property, Water, and Sanitation Services.

Government Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: 1) charges to customers or applicants who purchase, use directly benefit from goods, services, or privileges, provided by a given function or activity or (2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Measurement Focus, Basis of Accounting and Presentation

The government-wide financial statements are reported using the economic resources measurements focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are "measurable, and available"). "Measurable" means the amount of the transaction can be determined and "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

Sales taxes, Use taxes, Franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenue when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when the City receives the cash.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *Water, Sewer, and Sanitation Funds*, accounts for the water, sewer, and sanitation activities of the City.

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 – SUMMARY (*Continued*)

As a general rule, the effect of inter-fund activity has been eliminated from the government financial statements. Exceptions to this general rule are payments to the general fund by various enterprise funds for the providing of administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity

A. Cash and Cash Equivalents

Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. City policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the Utah Public Treasurer's Investment Fund and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value. The fund operates in accordance with state laws and regulations. The reported value of the City's cash in the Fund is the same as the fair value of the Fund shares.

Cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less, when purchased, meet this criteria.

B. Restricted Assets

Cash, which is restricted to a particular use due to statutory, budgetary, or bonding requirements by outside parties, is classified as "restricted cash" on the Financial Statements. Restricted cash would be spent first and then unrestricted would be used when the restricted funds are depleted.

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

C. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives.

| <u>Assets</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings and structures | 30-50 |
| Infrastructure | 30-50 |
| Improvements other than buildings | 10-40 |
| Machinery and equipment | 5-10 |

E. Taxes

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on all business personal property on January 1st, and real estate and improvement taxes are levied on January 1st and are payable by November 30th. The real property taxes which are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The City Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22nd each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

F. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

G. Fund Equity

In the fund statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restriction imposed by creditors, grantors or laws or regulations of other governments.

I. Use of Estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

| | |
|--|---------------------|
| Cost of capital assets | \$2,105,346 |
| Accumulated Depreciation | <u>(1,140,329)</u> |
| Net adjustment to increase <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i> | <u>\$965,017</u> |

Long-term assets:

Long-term assets applicable to the City's governmental activities which are not available to pay expenses of the current period are deferred in the fund statements. However in the statement of net assets, the changes were reported as revenue when earned.

| | |
|---|------------------|
| Delinquent Property Taxes | \$ <u>11,211</u> |
| Net adjustments to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i> | \$ <u>11,211</u> |

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government –wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statements of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

| | |
|---|-------------------|
| Capital Outlay | \$ 52,707 |
| Depreciation Expense | <u>(54,277)</u> |
| Net adjustment to <i>increase net changes in fund balances-</i> <i>total governmental funds</i> to arrive at <i>changes in net assets</i> <i>of governmental activities</i> | <u>\$ (1,570)</u> |

Another element of that reconciliation states that revenues in the statement of activities that do not provide current financial resources are not reported as revenues and are deferred in the funds. However, in the statement of activities, revenue is reported when earned. Thus the change is to record the earned income in the statement of activities.

| | |
|---|----------------|
| Net adjustment to <i>increase net changes in fund balances-</i> <i>total governmental funds</i> to arrive at <i>changes in net assets</i> <i>of governmental activities</i> | |
| Delinquent Property Taxes | <u>\$8,234</u> |

NOTE 3 - BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the City. Budgets are adopted on a basis consistent with generally accepted accounting principles.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 3 - BUDGETS AND BUDGETARY ACCOUNTING *(Continued)*

- A. On or before the first regularly scheduled meeting of the City Council in May, the City clerk, authorized under state statute to be appointed budget officer, submits a proposed operating budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is posted in various locations in the City at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City clerk, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the City modified the budget using the above procedures.

NOTE 4 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City's carrying amount of deposits was \$411,244, the balance in the City's bank account and the cash on hand was \$413,389 with the difference being due to outstanding checks and deposits in transit.

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 4 – CASH (Continued)

A. Deposits

Deposits – Custodial Credit Risk. Custodial risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City follows the requirements of the Utah Money Management Act in handling its depository and investing transactions. The City considers the actions of the State Money Management Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. City funds are deposited in qualified depositories as defined by the Act. The City does not have a deposit policy for custodial credit risk. As of June 30, 2005, the City's custodial credit risk for deposits were as follows:

| Depository account | Custodial Credit Risk | Balance June 30, 2005 |
|-------------------------|--------------------------------|--------------------------|
| Checking and Savings | Insured and Collateralized | \$ 100,000 |
| Checking and Savings | Uninsured and Uncollateralized | 121,756 |
| Certificates of Deposit | Insured and Collateralized | 100,000 |
| Certificates of Deposit | Uninsured and Uncollateralized | 28,322 |
| Total Deposits | | <u>\$ 350,078</u> |

B. Investments

The City's investments are managed through participation in the State Public Treasurers' Investment Fund and through a trust arrangement with a local bank. As of June 30, 2005 the City had the following investments:

| Investments | Investment Maturities (in Years) | | | |
|---|----------------------------------|-------------|-------------|-------------|
| | Less Than 1 | 1-5 | 6-10 | 10 |
| Utah Public Treasurer's Investment Fund | \$ 7,035 | \$ - | \$ - | \$ - |
| Money Market Port CL | 56,276 | | | |
| Total Investments | <u>\$ 63,311</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Investments – Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest rate risk is managed by compliance with the Utah Money Management Act, which provides guidance for handling depository and investing transactions in order to minimize interest rate risk.

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Investments – Credit Risk. The City follows the requirements of the Utah Money Management Act in handling its Depository and investing transactions. The City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public Treasurers Investment Fund (PTIF), certificates of Deposits, U.S. Treasury obligations, U.S. agency issues, restricted mutual funds, and obligations of governmental entities within the State of Utah. The City's investments are invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the investments. The degree of risk of the investments depends on the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices.

At June 30, 2005 the City had the following investments and quality ratings:

| Investments | Fair Value | AAA | AA | A | Unrated |
|---|------------------|-------------|-------------|-------------|------------------|
| Utah Public Treasurers Investment Pool | \$ 7,035 | | | | \$ 7,035 |
| Money Market Port CL | 56,276 | | | | 56,276 |
| Total Investments | <u>\$ 63,311</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 63,311</u> |

Investments Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the City's \$63,311 investment in a Mutual Fund, and the Utah State Treasurers Investment Pool, the entire amount of underlying securities are held by the Investment's counterparty, not in the City's name and are not insured. The City's investment arrangements primarily invest in Utah State Treasurers investment pool, obligations of the United States Treasury, agencies, or instrumentalities of the United States that meet the allowable investments of the Utah Money Management Act. The City does not have an investment policy for custodial credit risk.

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 5 - RECEIVABLES

Receivables as of year end for the government's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

| | <u>General</u> | <u>Water</u> | <u>Sewer</u> | <u>Sanitation</u> | <u>Total</u> |
|-----------------------------|------------------|------------------|-----------------|-------------------|------------------|
| Receivables: | | | | | |
| Taxes | \$ 63,546 | | | | \$ 63,546 |
| Intergovernmental | 7,585 | | | | 7,585 |
| Accounts | | 27,367 | 10,973 | 13,062 | 51,402 |
| Allowance for Uncollectible | | | | | |
| Accounts | | (15,221) | (6,103) | (7,265) | (28,589) |
| Total Accounts Receivable | <u>\$ 71,131</u> | <u>\$ 12,146</u> | <u>\$ 4,870</u> | <u>\$ 5,797</u> | <u>\$ 93,944</u> |

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

| | <u>Unavailable</u> | <u>Unearned</u> |
|--|--------------------|-----------------|
| Property taxes receivable (general fund) | <u>\$ 33,827</u> | <u>\$ -</u> |

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2005 is as follows:

Due to/from other funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|-----------------|
| Water | Sanitation | <u>\$24,785</u> |

Interfund balances are created to support temporary cash deficiencies in the applicable funds.

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

| Primary Government | Beginning | | | Ending |
|--|------------------|------------------|------------------|----------------|
| Governmental activities: | Balance | Increases | Decreases | Balance |
| Capital assets not being depreciated: | | | | |
| Land | \$ 118,000 | | | \$ 118,000 |
| Total capital assets not being depreciated | 118,000 | | 0 | 118,000 |
| Capital assets being depreciated: | | | | |
| Buildings | 268,158 | | | 268,158 |
| Improvements | 15,005 | | | 15,005 |
| Machinery and equipment | 36,500 | 15,371 | | 51,871 |
| Infrastructure | 1,614,976 | 37,336 | | 1,652,312 |
| Total capital assets being depreciated | 1,934,639 | 52,707 | 0 | 1,987,346 |
| Less accumulated depreciation for: | | | | |
| Buildings | 102,649 | 6,164 | | 108,813 |
| Improvements | 10,306 | 334 | | 10,640 |
| Machinery and equipment | 21,132 | 6,782 | | 27,914 |
| Infrastructure | 951,965 | 40,997 | | 992,962 |
| Total accumulated depreciation | 1,086,052 | 54,277 | | 1,140,329 |
| Total capital assets, being depreciated, net | 848,587 | (1,570) | | 847,017 |
| Governmental activities capital assets, net | \$ 966,587 | \$ (1,570) | \$ - | \$ 965,017 |
| Business-type activities: | Beginning | | | Ending |
| | Balance | Increases | Decreases | Balance |
| Capital assets not being depreciated: | | | | |
| Construction in Progress | \$ - | | \$ - | \$ - |
| Land | 5,000 | | | 5,000 |
| Water Rights | 36,997 | | | 36,997 |
| Total capital assets not being depreciated | 41,997 | 0 | 0 | 41,997 |
| Capital assets being depreciated: | | | | |
| Buildings | | | | 0 |
| Improvements | 2,527,605 | | | 2,527,605 |
| Machinery and equipment | 25,000 | | | 25,000 |
| Total capital assets being depreciated | 2,552,605 | 0 | 0 | 2,552,605 |
| Less accumulated depreciation for: | | | | |
| Buildings | | | | 0 |
| Improvements | 754,881 | 54,344 | | 809,225 |
| Machinery and equipment | 6,902 | 4,257 | | 11,159 |
| Total accumulated depreciation | 761,783 | 58,601 | | 820,384 |
| Total capital assets, being depreciated, net | 1,790,822 | (58,601) | | 1,732,221 |
| Business-type activities capital assets, net | \$ 1,832,819 | \$ (58,601) | \$ - | \$ 1,774,218 |

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 7 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|---|------------------|
| Governmental Activities | |
| General Government | \$ 4,164 |
| Public Safety | 750 |
| Public Works | 49,029 |
| Community Development | 334 |
| Total depreciation expense Governmental Activities | <u>\$ 54,277</u> |
| Business-type Activities | |
| Water | \$ 33,550 |
| Sewer | 25,051 |
| Total depreciation expense Business-type Activities | <u>\$ 58,601</u> |

NOTE 8 - LAND DEPOSIT

The City is in the process of purchasing land, which it intends to resale to certain citizens. The City has not yet purchased the land. The citizens have prepaid \$4,583 toward the purchase price.

NOTE 9 - LONG-TERM DEBT

| Business Type Activities | <u>6/30/2004</u> | <u>Additions</u> | <u>Deletions</u> | <u>6/30/2005</u> | <u>Due in one year</u> |
|--------------------------|-------------------|------------------|------------------|-------------------|----------------------------|
| Water Bond Payable 2003A | \$ 339,000 | \$ - | \$ 14,000 | \$ 325,000 | \$ 14,000 |
| Water Bond Payable 2003B | 352,000 | | 17,000 | 335,000 | 17,000 |
| Water Loan Payable | 22,000 | | 4,000 | 18,000 | 4,000 |
| Sewer Loan Payable | 178,460 | | 14,872 | 163,588 | 14,872 |
| Total | <u>\$ 891,460</u> | <u>\$ -</u> | <u>\$ 49,872</u> | <u>\$ 841,588</u> | <u>\$ 49,872</u> |

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 9 - LONG-TERM DEBT

Long-term debt consists of the following:

- A) Note payable to Farmers Home Administration in annual payments of \$4,000 per year to 2007, \$5,000 per year to 2009, plus 5% interest. Debt Service requirements to maturity are:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|------------------|-----------------|------------------|
| 2006 | \$ 4,000 | \$ 900 | \$ 4,900 |
| 2007 | 4,000 | 700 | 4,700 |
| 2008 | 5,000 | 500 | 5,500 |
| 2009 | 5,000 | 250 | 5,250 |
| | <u>\$ 18,000</u> | <u>\$ 2,350</u> | <u>\$ 20,350</u> |

- B) Non-interest bearing indebtedness payable to the State of Utah in annual installments of \$14,872 per year beginning July 1, 1987 through July 1, 2016. Debt Service requirements to maturity are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|-------------------|-----------------|-------------------|
| 2006 | 14,872 | - | 14,872 |
| 2007 | 14,872 | - | 14,872 |
| 2008 | 14,872 | - | 14,872 |
| 2009 | 14,872 | - | 14,872 |
| 2010 | 14,872 | - | 14,872 |
| 2011-2015 | 74,358 | - | 74,358 |
| 2016-2020 | 14,870 | - | 14,870 |
| | <u>\$ 163,588</u> | <u>\$ -</u> | <u>\$ 163,588</u> |

- C) Non-interest bearing note payable to the Permanent Community Impact Fund Board in annual installments beginning August 1, 2004 through August 1, 2023. Debt Service requirements to maturity are as follows:

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 9 - LONG-TERM DEBT (Continued)

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|-------------------|-----------------|-------------------|
| 2006 | 17,000 | - | 17,000 |
| 2007 | 17,000 | - | 17,000 |
| 2008 | 17,000 | - | 17,000 |
| 2009 | 17,000 | - | 17,000 |
| 2010 | 17,000 | - | 17,000 |
| 2011-2015 | 88,000 | - | 88,000 |
| 2016-2020 | 90,000 | - | 90,000 |
| 2021-2025 | 72,000 | - | 72,000 |
| | <u>\$ 335,000</u> | <u>\$ -</u> | <u>\$ 335,000</u> |

D) \$352,000 Parity Water Revenue Bond Series 2002A. This bond requires annual installments of principal and interest due beginning January 1, 2004 through January 1, 2023, bearing an interest rate of 2.91 %. Debt Service requirements to maturity are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|-------------------|------------------|-------------------|
| 2006 | \$ 14,000 | \$ 9,458 | \$ 23,458 |
| 2007 | 14,000 | 9,050 | 23,050 |
| 2008 | 15,000 | 8,643 | 23,643 |
| 2009 | 15,000 | 8,206 | 23,206 |
| 2010 | 16,000 | 7,770 | 23,770 |
| 2011-2015 | 86,000 | 31,661 | 117,661 |
| 2016-2020 | 99,000 | 18,391 | 117,391 |
| 2021-2025 | 66,000 | 3,899 | 69,899 |
| | <u>\$ 325,000</u> | <u>\$ 97,078</u> | <u>\$ 422,078</u> |

Debt Service requirements to maturity for all the City's bonds and notes are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|-------------------|------------------|-------------------|
| 2006 | 49,872 | 10,358 | 60,230 |
| 2007 | 49,872 | 9,750 | 59,622 |
| 2008 | 51,872 | 9,143 | 61,015 |
| 2009 | 51,872 | 8,456 | 60,328 |
| 2010 | 47,872 | 7,770 | 55,642 |
| 2011-2015 | 248,358 | 31,661 | 280,019 |
| 2016-2020 | 203,870 | 18,391 | 222,261 |
| 2021-2025 | 138,000 | 3,899 | 141,899 |
| | <u>\$ 841,588</u> | <u>\$ 99,428</u> | <u>\$ 941,016</u> |

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 10 – RESERVED FUND BALANCES

Reserved fund balance comprises amounts which the City has designated for specific purposes or are amounts held by committees for which the City has oversight responsibility (Class “C” Road,) Governmental Activities.

| <u>General Fund</u> | <u>Amount</u> |
|---------------------|---------------|
| Class “C” Roads | \$ 3,972 |

NOTE 11 - RETIREMENT PLAN

Plan Description. Eureka City Corporation contributes to the Local Governmental Noncontributory Retirement System, which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, and Public Safety Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System, Eureka City Corporation is required to contribute 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Eureka City Corporation contributions to the Noncontributory Retirement System for June 30, 2005, 2004, and 2003, were \$7,947, \$6,516, and \$7,154 respectively. The contributions were equal to the required contributions for each year.

NOTE 12 - LITIGATION

The City is defendant in certain legal actions and pending actions, or in process for miscellaneous claims. The ultimate liability that might result from the final resolution of the above matters is not presently determinable. City management is of the opinion that the final outcome of these matters will not have an adverse material affect on the City’s financial statements.

EUREKA CITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for these risks. Various policies are purchased through an insurance agency to cover liability, theft, damages, and other losses. A minimal deductible applies to these policies, which the City pays in the event of any loss. The City also has purchased a workers' compensation policy. Losses have not exceeded coverage during the last three years.

NOTE 14 – EXPENDITURES IN EXCESS OF APPROPRIATIONS

For the year ended June 30, 2005 expenditures exceeded appropriations in the General Fund by \$19,849.

NOTE 15 – OTHER DISCLOSURES

As of June 30, 2005, the Sanitation Enterprise fund had a negative unreserved fund balance of \$22,632.

REQUIRED SUPPLEMENTARY INFORMATION

EUREKA CITY
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
General Fund
For the Year Ended June 30, 2005

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|---|-------------------------|-------------------|-------------------|-----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Totals</u> | <u>Final Budget -</u> |
| | | | | <u>Positive</u> |
| | | | | <u>(Negative)</u> |
| REVENUES | | | | |
| Taxes | \$ 118,000 | \$ 120,900 | \$ 119,863 | \$ (1,037) |
| Licenses and Permits | 5,600 | 4,700 | 5,107 | 407 |
| Intergovernmental | 85,960 | 67,900 | 71,663 | 3,763 |
| Charges for Services | 16,400 | 10,500 | 16,580 | 6,080 |
| Miscellaneous | 1,000 | 1,200 | 4,016 | 2,816 |
| Total Revenues | <u>226,960</u> | <u>205,200</u> | <u>217,229</u> | <u>12,029</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 96,000 | 90,075 | 90,972 | (897) |
| Public Safety | 15,000 | 13,000 | 10,258 | 2,742 |
| Planning and Zoning | 1,550 | 1,500 | 655 | 845 |
| Public Works | 82,184 | 79,000 | 108,741 | (29,741) |
| Community Development | 26,000 | 22,000 | 14,798 | 7,202 |
| Total Expenditures | <u>220,734</u> | <u>205,575</u> | <u>225,424</u> | <u>(19,849)</u> |
| Excess (deficit) of revenues over (under) expenditures | <u>6,226</u> | <u>(375)</u> | <u>(8,195)</u> | <u>(7,820)</u> |
| Net Change in Fund Balance | 6,226 | (375) | (8,195) | (7,820) |
| Fund balances - beginning | <u>110,340</u> | <u>110,340</u> | <u>110,340</u> | <u>-</u> |
| Fund balances - ending | <u>\$ 116,566</u> | <u>\$ 109,965</u> | <u>\$ 102,145</u> | <u>\$ (7,820)</u> |

OTHER REPORTS

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A. HEATON, C.P.A.
LYNN A. GILBERT, C.P.A.
JAMES A. GILBERT, C.P.A.
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190 WEST 800 NORTH
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
Eureka City
Eureka City, Utah

January 10, 2006

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of Eureka City as of and for the year ended June 30, 2005, which collectively comprise Eureka City's basic financial statements and have issued our report thereon dated January 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Eureka City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to relatively low level of risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eureka City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, the results of our tests disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter.

This report is intended solely for the information of management, Utah State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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**INDEPENDENT AUDITOR'S REPORT
ON LEGAL COMPLIANCE WITH
APPLICABLE UTAH STATE LAWS AND REGULATIONS**

Honorable Mayor and City Council
City of Eureka
Eureka, UT

January 10, 2006

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Eureka City for the year ended June 30, 2005, and have issued our report thereon dated January 10, 2006. As part of our audit, we have audited Eureka City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major state assistance programs from the State of Utah:

Class "C" Road Funds (Department of Transportation)
Liquor Law Enforcement (Tax Commission)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other Compliance Requirements
Uniform Building Code Standards
Impact Fees and Other Development Fees
Asset Forfeitures

The management of Eureka City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance which is expressed in the following paragraph.

In our opinion, Eureka City complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2005.

This report is intended solely for the information of management and Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

EUREKA CITY
MANAGEMENT LETTER

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A. HEATON, C.P.A.
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FAX (801) 373-5622

Eureka City Corporation
Eureka, Utah

January 10, 2006

We have audited the financial statements of Eureka City Corporation for the year ended June 30, 2005 and have issued our report thereon dated January 10, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Eureka City Corporation. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Eureka City Corporation's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Eureka City Corporation are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Eureka City Corporation during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Eureka City Corporation's financial reporting process. In our judgment, none of the adjustments we proposed whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Utah State Findings - Current Year

2005-1. Fund Balances

Finding: The City had a deficit fund balance in the following fund:

Garbage Fund

\$22,632

Recommendation: We recommend that the City make appropriations in the budget to bring the above fund balance into compliance. We recommend either raising rates in the garbage fund to overcome the deficit, or make a budgeted transfer to cover the deficit in that fund.

City's Response: We concur with the auditor's recommendation.

2005-2. General Fund Balance

Finding: The general fund balance exceeded the maximum limit by \$60,245.

Recommendation: We recommend the City make budgetary adjustments to bring the fund balance into compliance.

City's Response: We concur with the auditor's recommendations.

2005-3 Budgetary Compliance

Finding: Utah State Law prohibits the City from incurring expenditures in excess of those budgeted. We noted the City had expenditures in excess of appropriations as follows:

| | |
|--------------------|----------|
| General Government | \$897 |
| Public Works | \$29,741 |

Recommendation: We recommend that the City monitor and make adjustments via a public hearing during and at the end of the year to adjust budgets to be in compliance with state law.

City's Response: We concur with auditors recommendations and will make the necessary adjustments to be in compliance with state law.

Utah State Findings - Prior Year

2004-1. Fund Balances

Finding: The City had a deficit fund balance in the following fund:

| | |
|--------------|----------|
| Garbage Fund | \$15,529 |
|--------------|----------|

Recommendation: We recommend that the City make appropriations in the budget to bring the above fund balance into compliance. We recommend either raising rates in the garbage fund to overcome the deficit, or make a budgeted transfer to cover the deficit in that fund.

City's Response: See current year findings 2005-1.

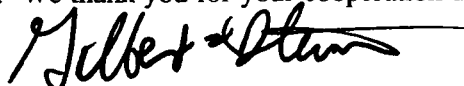
2004-2. General Fund Balance

Finding: The general fund balance exceeded the maximum limit by \$42,224.

Recommendation: We recommend the City make budgetary adjustments to bring the fund balance into compliance.

City's Response: See current year findings 2005-2.

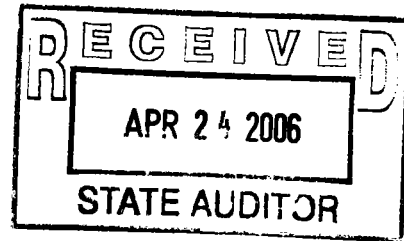
If you have any questions about the above information, please call. We thank you for your cooperation during our audit.


GILBERT & STEWART
Certified Public Accountants



Eureka City Corporation

*P. O. Box 156
15 North Church Street
Eureka, Utah 84628
Phone: 435-433-6915
Fax: 435-433-6891
email: eureka15@cut.net*



April 19, 2006

State of Utah
Office of the State Auditor
Utah State Capitol Complex
East Office Building, Suite E310
P. O. Box 142310
Salt Lake City, Utah 84114-2310

RE: Letter of Compliance

Eureka City Council has reviewed your letter concerning compliance with State Laws on our budget.

To correct the problems, our Council has decided to hold a public hearing and open our budget back up to transfer funds to cover the discrepancies for this budget year. They then plan to increase our current garbage rates and/or dump pass fees to offset the costs incurred for this department. It is unknown what the increase will be at this time, but as we consider our options, we have to take into account that many of our residents are retired and on fixed incomes.

Once our landfill was shut down according to state regulations, we began contracting with a private company for all of our trash collection needs. Their fees have been increasing each year to cover their costs for fuel and their cost of living increases, etc. As you can imagine, this has created a sore spot with our residents because of the many increases which are passed on to them. It has been a constant struggle within our budget, and we will do our best to bring our budget into compliance.

We are also looking into several different options for our trash collections needs once our current contract is up.

If you have any further questions concerning this issue please do not hesitate to contact our office.

Sincerely,

Patricia Bigler,
City Recorder